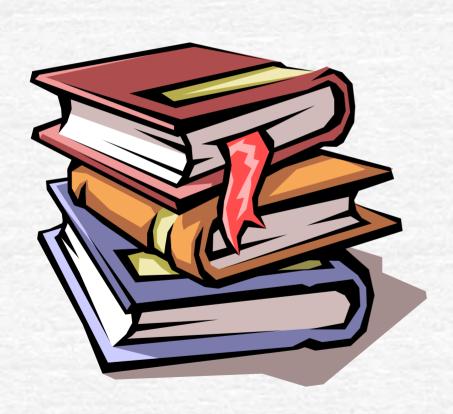
# CALIFORNIA'S TAX CREDIT ALLOCATION COMMITTEE PROGRAMS

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#### 3 PROGRAMS



- Federal Low Income Housing Tax Credit
- State Housing Tax Credit
- CommercialRevitalizationDeduction Program

#### Resources 2004

- This year:
  - \$64 million in federal tax credits
  - \$70 million in state tax credits
  - \$12 million in Commercial Revitalization Deductions

### FEDERAL LOW INCOME HOUSING TAX CREDIT PROGRAM

### Federal Program History

- Created by Congress in 1986
- Replaced other tax incentives for affordable housing
- Made permanent in 1993

- Now provides
  deepest federal
  subsidy for rental
  housing
- Tax based subsidy, overseen by the IRS
- Managed by the State agencies

#### A Tax Based Subsidy?

- Instead of spending federal dollars directly on housing, the program encourages private investors to invest in affordable housing:
  - Investors generally corporations
  - They form partnerships with developers for ownership of the developments -- "syndication"
  - They invest money in construction, other costs, and
  - Their investment is repaid with tax credits used to offset their annual tax liability

#### How it Works

- Federal government allocates Tax Credits to States
- States select agencies, prepare plans, establish priorities, award Tax Credits to projects and monitor development process
- In exchange for Credits, developers agree to maintain the apartments as affordable housing
- State agencies monitor projects to ensure they comply

# How it Works: The "9%" Competition

- Developer applies to TCAC for credits in one of two annual funding rounds
- Competes with other projects
- Winning projects have 2 full years to be completed, and have to meet benchmarks along the way
- At completion TCAC issues forms to allow investors to claim tax benefits,

# How it Works: The "4%" Door

- Rather than compete in rounds, developer can ask CDLAC for tax exempt bond cap
- Bond cap brings lower rate financing, and lesser 4% credits that are not taken from state's Tax Credit Ceiling
- TCAC has to determine that the project is "consistent with the Qualified Allocation Plan"

# Calculating the Tax Credit

Total Development Cost	\$10,000,000
- Land	1,500,000
- Financing Costs, Reserves etc.	350,000
= Eligible Basis	\$8,150,000
X Percent of Units Affordable	100%
= Qualified Basis	\$8,150,000
* 9%	\$733,500
X 10 Years (Total Tax Credits)	\$7,335,000
X \$0.85 (Equity pricing) = Net Proceeds	\$6,234,750
= % of Total Development Cost	62%

## 62% is Not Enough: Other Financing

- Federal Home Loan Bank
- USDA/Rural Housing Services
- HUD/FHA
- Foundations

- HOME Investment Partnership
- CDBG
- State, Local Housing Agency Programs
- Commercial Banks

#### California's Priorities

#### Set Asides:

- Non Profit 10%
- Rural 20%
- Small Development 2%
- At-Risk 5%
- Special Needs/SRO 2%
- Credit Holdback 1.5%

Total 40.5%

### Geographic Regions

- Los Angeles 33%
- Central Region 10%
- North & East Bay 10%
- San Diego 10%
- Inland Empire 8%

- Orange 8%
- South & West Bay 6%
- Capital Region 6%
- Coastal Region 5%
- San Francisco 4%

#### California's Priorities

- Housing Types:
  - Large Family 65%
  - Single Room Occupancy 10%
  - Special Needs 5%
  - Seniors 15%
  - At-Risk 5%

# Federal Housing Tax Credit Production in San Diego

- Since 2000, 21 "9%" Tax Credit projects have been approved by TCAC for San Diego County
  - 190 million in federal subsidy dollars and
  - Over 1,400 affordable housing units
- In addition TCAC and CDLAC approved 49 4% projects
  - 265 million in federal subsidy dollars and
  - Nearly 6,600 affordable housing units

#### State Program History

- Started in 1997
- Provides similar tax credits, but
  - Set at 30% of basis
  - Run for 4 years
  - Allocation includes 4 year amount

- Allocated along with Federal Tax Credits
- Used in areas ineligible for 130% federal tax credits
- Set at \$35 million originally, and now up to \$70 million each year

# State Housing Tax Credit Production in San Diego

Since 2000, TCAC has allocated \$5.9 million in state tax credits for projects funded in "9%" competition

# COMMERCIAL REVITALIZATION DEDUCTION PROGRAM

#### **Program History**

- 2000, Congress passed Community Renewal Tax Relief Act to stimulate job growth and economic development in distressed communities
- HUD later designated 5 "Renewal Communities" in California:
  - Parts of San Francisco, Los Angeles and San Diego
  - Cities of Parlier and Orange Cove

#### **Program History**

- Act provided \$12 million in income deductions each year, from 2002 to 2009, for each community
- Deductions awarded to businesses that acquire and renovate or rehabilitate existing properties or build property for commercial use
- TCAC designated to operate the program in 2002

#### How it Works

- Business partners with renewal community
- Requests allocation from TCAC
- Then business can:
  - Deduct half of its qualified expenditures (generally capitalized costs of renovating or building a building) when building is complete, or
  - Claim deductions over a 10 year period.
- Communities have local contacts for program information

## Commercial Revitalization Deduction Program-San Diego

- San Diego is most active of all 5 Renewal Communities in California
  - To date, 8 projects approved in amounts from \$113,000 to \$10,000,000
  - Include health center, coffee house, bookstore, restaurant, mercado, others
  - Over \$26 million in program benefits brought to San Diego

# **QUESTIONS?**

Contact CTCAC (916) 654-6340 Or TCAC@treasurer.ca.gov